

Thanks To Fracking, Natural Gas Supplies (Barely) Withstand 'Polar Vortex' Assault Posted: Jan 9, 2014

*Christopher Helman
Forbes*

The polar vortex gripping the nation has brought a crazy week for natural gas. On Monday the demand for gas nationwide hit a record 125 billion cubic feet as homeowners and power generators sought to burn as much of it as they could get to keep the cold at bay. In a normal early-January week the draw on natural gas inventories is about 170 billion cubic feet. This week, according to market watcher Bentek, the drawdown is expected to be on the order of 310 bcf — the most ever.

The record demand stretched supplies in the Northeast. In the New York region on Monday prices for natural gas reached a record \$100 per mmBTU. This is natural gas we're talking about, not gasoline or oil. A week before spot prices were on the order of \$4.25 per mmBTU.

"On Monday the message was, 'We need every molecule we can get,'" says one natural gas trader in Houston. The price shock was felt as far south as east Texas, where spot prices were up to \$40.20 per mmBTU, nearly matching the record set back in 2004.

Natural gas utilities, which serve homeowners and small businesses, have the first call on gas supplies in times like this as they are required by regulators to maintain a supply cushion for in order to keep grandma from freezing to death. That meant some power generators in the Northeast got pushed out. There's also anecdotal reports of coal-fired plants going offline because their coal slurries froze up. As a result, during the deep freeze, nuclear power made up a bigger portion of the power supply pie, while some generators had to resort to the emergency measure of firing up their boilers with heating oil. Very little oil is burned for electricity anymore because of the high cost. But this week, says Jack Weixel, research director at Bentek, "they were back to burning fuel oil because it was cheaper than gas." When natgas is selling for \$100/mmBTU, anything goes.

Ironically, on the day when homeowners and power generators were burning all the natgas they could get their hands on, some producers were shut out of the market. In the Marcellus shale region of Pennsylvania is got so cold that gas wells froze shut. And not only could these producers not get their gas into the anxious market, but because they have long-term supply contracts with customers, these companies were forced to buy gas at record prices to cover their obligations. "On the two days when they could have made the most all year, they weren't selling, they were buying," says the gas trader.

"There's never been more demand, but it has been colder," says the trader, and if it gets this cold again, say in late February or early March, it could eat through all the natgas in storage, potentially causing shortages for millions. "People would die." Of course traders like to talk up their books. This one is long gas, and thinks we could see \$5 per mmBTU this year, up from a current \$4.30. (He suggests the average Joe can get long gas with the U.S. Natural Gas exchange-traded fund (NYSE:UNG).

Those level-headed guys at Bentek aren't so concerned. Having entered the heating season with 3.7 trillion cubic feet of gas in storage, Weixel expects we'll exit winter with 1.4 tcf left over. The basis for that confidence: despite record demand, the U.S. is also enjoying near-record natgas supplies. Gas production this week is running about 64 bcf per day. That's down a touch from the record 66 bcf from late last year, but up about 20% from a year ago. All thanks

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The only problem is when this record supply can't get to the regions of record demand. What has the Polar Vortex taught us, says Weixel, is that the Northeast needs more natural gas pipelines. "It takes Herculean effort to put pipe in the ground in the Northeast," he says, but if residents of the region insist on getting rid of nuclear and coal-fired power plants, they're going to have to accept the need for more pipelines. "It's like that research ship studying climate change that got stuck in the ice," Weixel says. In the Northeast the attitude is "we don't want you burying pipelines in our backyard — but dang it's cold."